

Message Text

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ACTION EUR-08

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FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 1725

TREAS DEPT WASHDC IMMEDIATE

C O N F I D E N T I A L ROME 20147

LIMDIS

TREASURY FOR WIDMAN

E. O. 11652: GDS

TAGS: EFIN, IT

SUBJ: STATUS OF STABILIZATION PROGRAM

REF: (A) ROME 19891, (B) ROME 19952

1. SUMMARY. EMBASSY HAS MADE SOME REVISIONS IN FISCAL DATA WHICH WERE CONTAINED IN REF A AS CORRECTED IN REF B. MAIN CHANGES ARE: (1) INCLUSION OF DETAILS ON NON-BUDGET TREASURY OPERATIONS FOR 1977, AND (2) ELIMINATION OF POSSIBLE ADDITIONAL BURDEN ON TREASURY IN 1977 FROM INTEREST PAYMENTS ON CONSOLIDATION OF LOCAL GOVERNMENT AND HEALTH INSURANCE FUNDS' DEBTS.END SUMMARY.

2.FISCAL DATA. TABLE 1 BELOW IS REVISED AND MORE DETAILED VERSION OF TABLE 2 CONTAINED REFS A AND B. EMBASSY HAS BEEN ABLE TO OBTAIN BREAKDOWN OF 1977 CENTRAL GOVERNMENT RECEIPTS BETWEEN TAX AND NON-TAX SOURCES AND BREAKDOWN OF CENTRAL GOVERNMENT EXPENDITURES BETWEEN CURRENT AND CAPITAL ACCOUNT. NOTE HOWEVER, THAT ALL OF CENTRAL GOVERNMENT DATA AND NON-BUDGET DATA FOR 1976 ARE ROUGH EMBASSY ESTIMATES MADE TO FIT BOI ESTIMATE OF NET DEFICIT AND OF CREDIT TO TREASURY. TABLE 1 SHOWS BREAKDOWN OF ESTIMATED NON-BUDGET TREASURY OPERATIONS IN 1977 (INCLUDING EMBASSY
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ESTIMATE OF 5,500 BILLION LIRE CONSOLIDATION OF LOCAL

GOVERNMENT DEBT). MAJOR REASONS WHY NON-BUDGETARY TREASURY OPERATIONS WILL BE LESS NEGATIVE IN 1977 (EXCLUDING LOCAL GOVERNMENT DEBT CONSOLIDATION) THAN IN 1975 ARE EXPLAINED IN FOOTNOTES TO TABLE 1. ONE POSSIBLE FACTOR INVOLVES QUESTION OF TIMING OF PAYMENTS WHEREBY CERTAIN 1976 CASH PAYMENTS BY TREASURY WHICH HAD NOT BEEN BUDGETED FOR IN 1976 WILL BE RECORDED AS PAYMENTS IN CENTRAL GOVERNMENT BUDGET IN 1977 WITH CORRESPONDING POSITIVE ADJUSTMENT IN "MINOR TREASURY OPERATIONS" (SINCE ACTUAL PAYMENT HAD ALREADY BEEN MADE). SECOND POSITIVE FACTOR CONCERNS CASH TRANSFERS FROM CENTRAL GOVERNMENT TO REGIONS IN 1977 WHICH REGIONS WILL BE UNABLE TO FULLY EXPEND THAT YEAR. RESULT IS THAT REGIONS REDEPOSIT EXCESS FUNDS WITH TREASURY AND THIS APPEARS AS POSITIVE ITEM IN MINOR TREASURY OPERATIONS.

3. TABLE 1 - TREASURY CASH DEFICIT (BILLIONS OF LIRE)

	1975	1976E	1977E
CENTRAL GOVERNMENT			

RECEIPTS:

TAX	20,637	25,500	35,750
NON-TAX	3,256	7,000	6,400
TOTAL	23,893	32,500	42,150

EXPENDITURES

CURRENT	27,492	31,000	42,500 1)
CAPITAL	6,613	12,000	10,650
TOTAL	34,105	43,000	53,150

CENTRAL GOVERNMENT DEFICIT -10,213 -10,500 -11,000

NON-BUDGET

MINOR TREASURY OPERATIONS	-4,199	N/A	2,550 2)
DEPOSIT/LOAN FUND	-1,997	N/A	-8,250 3)

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AUTONOMOUS ENTITIES	-155	N/A	-300
TOTAL	-6,351	-4,500	-6000

GROSS DEFICIT -16,564 -15,000 -17,000

LESS DEBT CONSOLIDATION	2,393	400	6,900
NET DEFICIT	-14,171	-14,600	-10,100

LESS: TREASURY CONTRIB.

TO SPECIAL CREDIT INST.	406	800	300
CREDIT TO TREASURY	-13,765	-13,800	-9,800

E - ESTIMATE: 1976 PARTLY BY EMBASSY, 1976-1977 BY
BANK OF ITALY.

N/A - NOT AVAILABLE.

1) INCLUDES 1,400 BILLION LIRE FOR CONSOLIDATION OF DEBT
OF HEALTH INSURANCE FUNDS. (MAXIMUM ALLOWED UNDER PRESENT LAW).

2) INCLUDES REDEPOSIT OF FUNDS BY REGIONS 1,300, INPS
(SOCIAL SECURITY) REPAYMENTS OF ADVANCES MADE IN 1976
600, OFFSET OF 1976 EXCESS INTEREST PAYMENTS ON
ORDINARY TREASURY BILLS 600 AND OTHER 50.

3) INCLUDES 5,500 IN CONSOLIDATION OF LOCAL GOVERNMENT DEBT.

4. POTENTIAL UNCOVERED EXPENDITURES IN 1977. TABLE 2
BELOW SIMPLY REPEATS TABLE 4 IN REFTEL A SO AS TO EXCLUDE
INTEREST PAYMENTS ON TREASURY CONSOLIDATION BOTH OF LOCAL
GOVERNMENT DEBT AND OF HEALTH INSURANCE FUNDS DEBT.
THIS IS BECAUSE, IN FIRST CASE, TREASURY RECOUPS INTEREST
WHICH IT MUST PAY ON TREASURY CONSOLIDATION ISSUES BY
COLLECTING ROUGHLY EQUAL AMOUNT FROM LOCAL GOVERNMENTS
WHEN RELENDING PROCEEDS OF TREASURY ISSUES. WHILE
INTEREST ON TREASURY ISSUES TO CONSOLIDATE HEALTH
INSURANCE FUNDS' DEBT WILL BE ADDITIONAL BURDEN ON
TREASURY IN 1977, BANK OF ITALY SOURCE HAS ASSURED
EMBASSY THAT CENTRAL GOVERNMENT EXPENDITURE ESTIMATE FOR
1977 ALREADY HAS PROVISION FOR SUCH INTEREST PAYMENTS.

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5. TABLE 2 - POTENTIAL UNCOVERED ADDITIONAL EXPENDITURES
IN 1977 (BILLIONS OF LIRE)

	"MAXIMUM"	"MORE LIKELY"
CAPITAL ENDOWMENT FUNDS	1,500	500
PUBLIC EMPLOYEES' WAGE CONTRACTS	450	350
MONTEDISON/MONTFIBRE	400	400
TOTAL	2,350	1,250

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